



BALANCING NATURAL GAS POLICY

Fueling the Demands of a Growing Economy

**Study Update
to the National Petroleum Council**

June 22, 2004

NPC

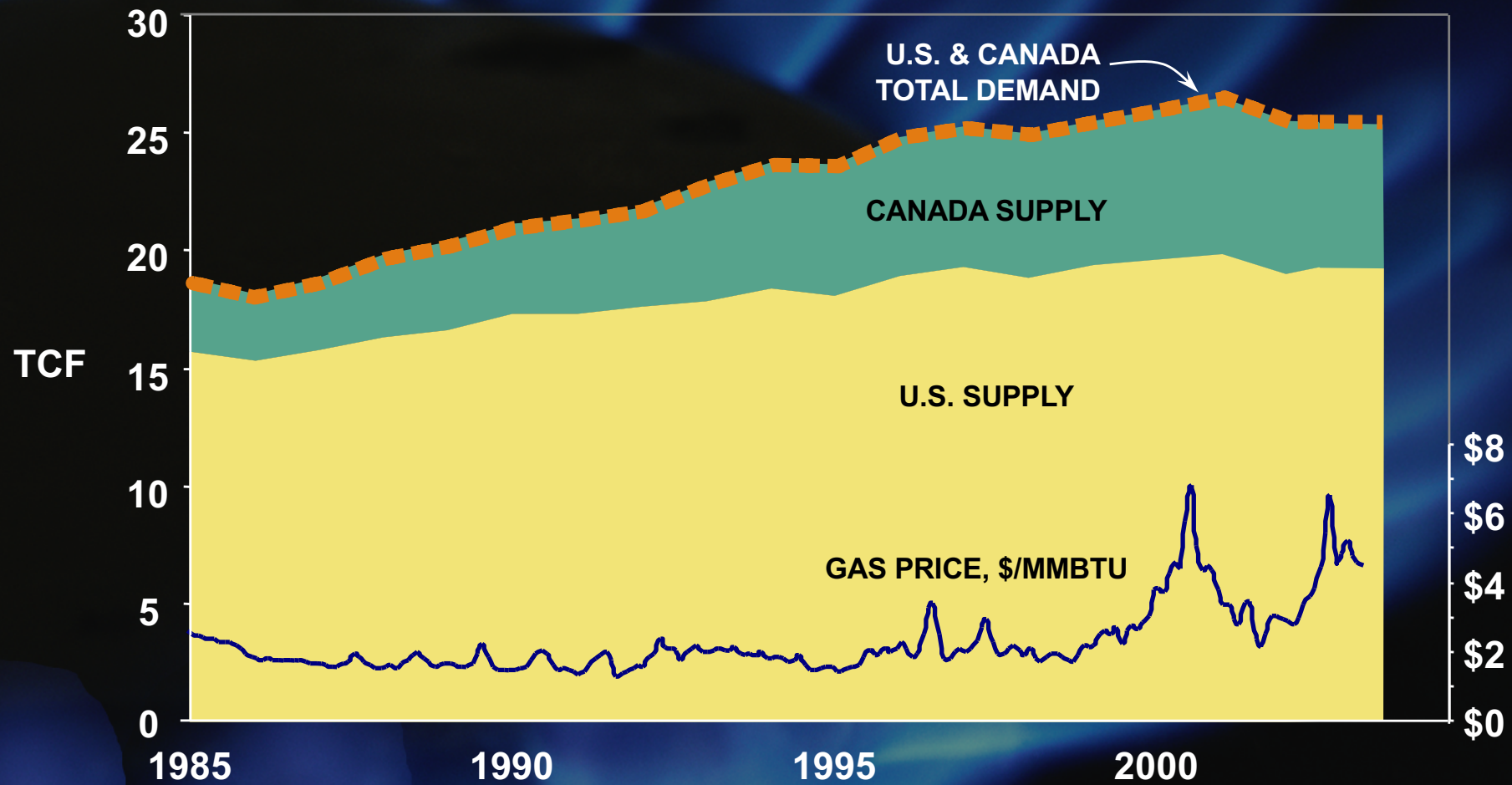
The Study Could Not Be More Timely

“Examine the potential implications of new supplies, new technologies, new perceptions of risk, and other evolving market conditions that may affect the potential for natural gas demand, supplies, and delivery through 2025 ... provide insights on energy market dynamics, including price volatility and future fuel choice, and an outlook on the longer-term sustainability of natural gas supplies ... advice on actions that can be taken by industry and Government to increase the productivity and efficiency of North American natural gas markets and to ensure adequate and reliable supplies of energy for consumers.”

Spencer Abraham
Secretary of Energy
March 2002

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Higher Prices Reflect a Fundamental Shift in Supply & Demand



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We Must Improve from the Status Quo

The current policy direction — unaltered — will likely lead to difficult conditions in the natural gas market, but industries, government, and consumers will react.

Therefore, this study assumes action beyond the status quo: Arctic pipelines built, substantial LNG imports, success in Lower-48 permitting, increased energy efficiency, fully-compliant coal and renewable generation.

The NPC Considered Two Paths Beyond the Status Quo

Reactive Path

Public policies remain in conflict, encouraging consumption while inhibiting supply ... resulting in higher prices and volatility

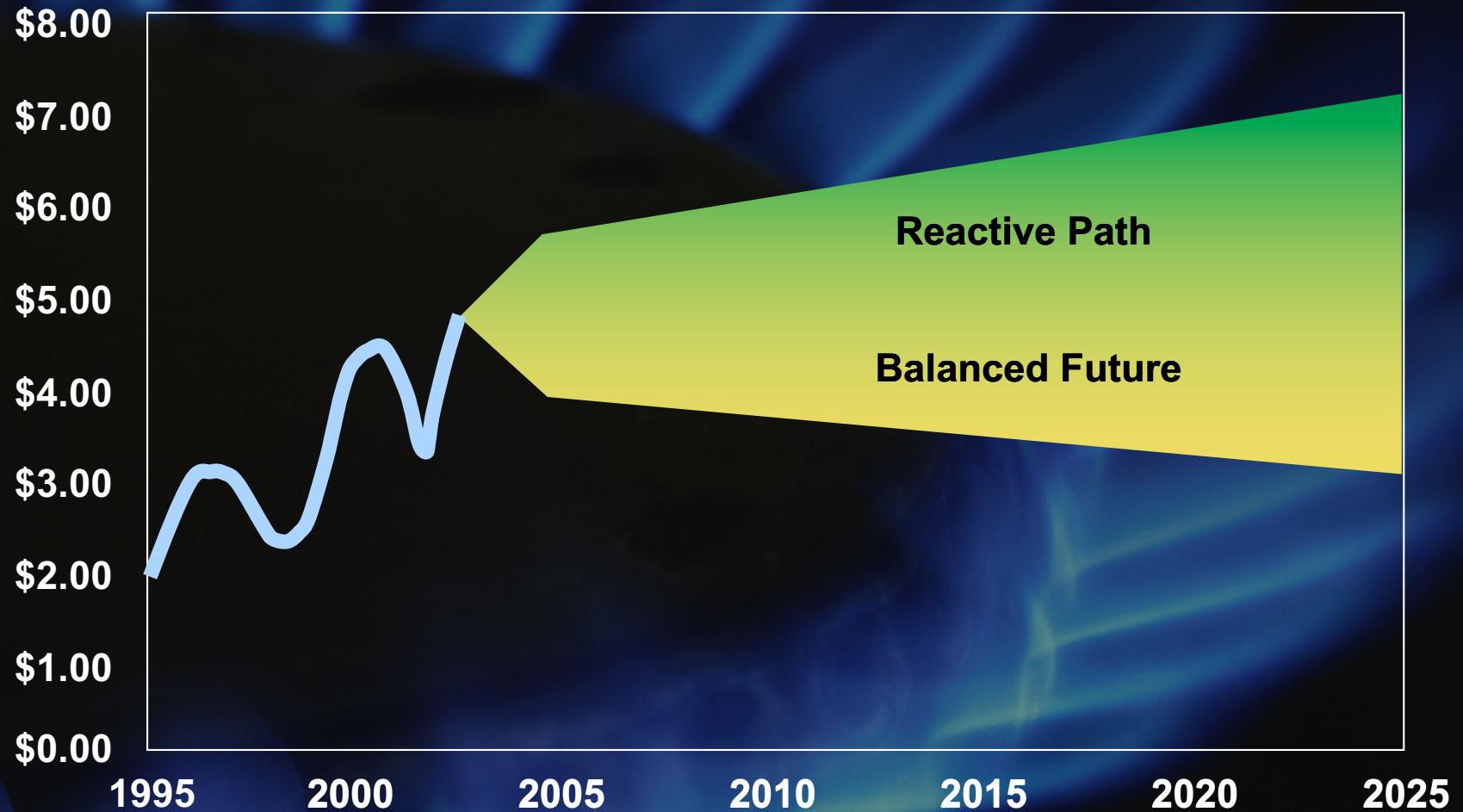
Balanced Future

Public policies aligned: alternate fuels and new natural gas supply sources compete to ensure lowest consumer cost

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Potential Price Range

Annual Average Henry Hub Prices, \$/MMBTU (\$2002)



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Finding: A balanced future that includes increased energy efficiency, immediate development of new resources, and flexibility in fuel choice could save \$1 trillion in U.S. natural gas costs over the next 20 years. Public policy must support these objectives.

Action is Required in All These Areas

Improve demand
flexibility & efficiency

and

Increase supply
diversity

and

Sustain and enhance
infrastructure

and

Promote efficient
markets



Higher economic
growth

Higher employment

Stronger industrial
activity

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The NPC Study Since September

- Captured the essence of today's challenges
- Vehicle for increased understanding, focused debate, and potential actions by policy makers at various levels
- Delivered to many audiences through diverse venues
- Continued, increasing use of data, detailed information, findings, and recommendations by analysts, officials, and industries

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The NPC Study Captured the Essence of Natural Gas Challenges and Opportunities

- **Tight supply/demand balance and likely price regimes**
- **Lower-48 and WCSB productivity**
- **Stress on industrial consumers and power generators**
- **Vital role of energy efficiency**
- **Access to indigenous resources**
- **LNG and arctic resources**
- **Importance of sustaining vast infrastructure**

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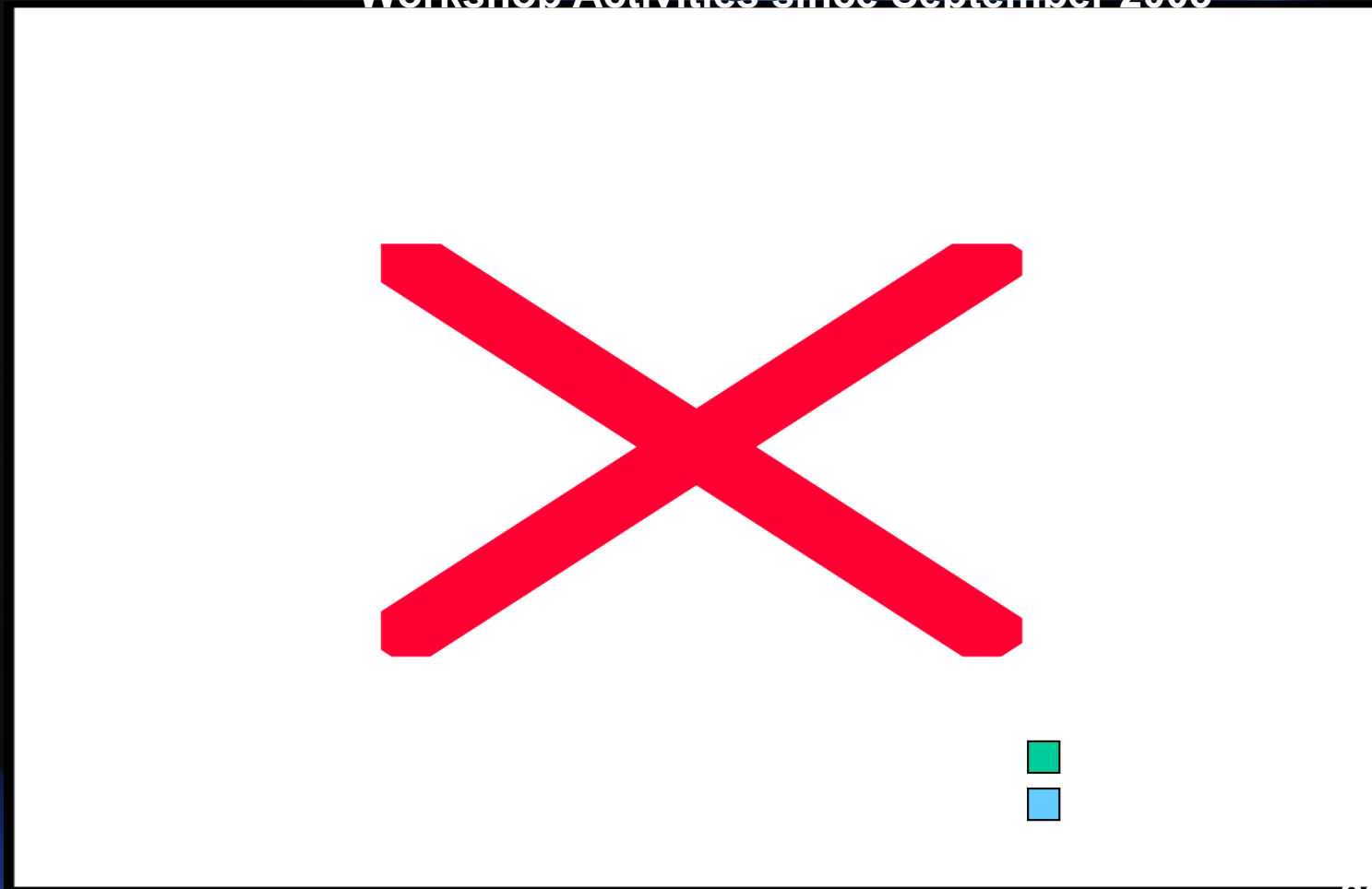
The NPC Study has been a Vehicle for Understanding, Focused Debate, Action

- Findings and recommendations have resonated with a wide range of audiences/constituencies
 - federal agencies
 - state regulators
 - state/federal legislators
 - Canada/Mexico officials
 - industrial consumers
 - power industry
 - E&P companies
 - infrastructure companies
- FERC action on LNG, Interior action on access issues
- DOE work with other agencies has created federal-level visibility and focus on ± 60 NPC recommendations
- NARUC Gas Committee has created state-level visibility and focus on ± 60 NPC recommendations

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The NPC Study has been the Topic of Diverse Forums, Delivered to Multiple Audiences

Number of Presentations and
Workshop Activities since September 2003



NPC Report Volumes and Documentation

- **Volume I: Summary of Findings and Recommendations**
- **Volume II: Integrated Report**
- **Volume III: Demand Task Group Report**
- **Volume IV: Supply Task Group Report**
- **Volume V: Transmission & Distribution Task Group
and LNG Subgroup Reports**
- **Data CDs**